Swiss continues a proud tradition

by Ken Donohue

For more than 70 years Swissair (*Airways*, June 1999) proudly flew the Swiss flag to most parts of the world. Like the country it represented, the airline was stable, reliable, and trusted. But six years ago, poor management decisions pushed Swissair into bankruptcy (*Airways*, May 2002). Marcel Biedermann, now managing director intercontinental markets for Swiss International Air Lines, was with Swissair at the time and tells *Airways* that the airline's bankruptcy was very surprising to many: "It was a major tragedy for the Swiss public to see the symbol of Swiss quality go under."

ROB FINLAYSON

In 2002 a reorganized Crossair (*Airways*, Jul/Aug 1994, Jul/Aug 1996, July 1999 & February 2000) served as the foundation for a new airline. Swissair ceased operations on March 31, and the following day Crossair became Swiss International Air Lines, promoted simply as 'Swiss' (*Airways*, May 2002).

But a new name doesn't bring instant success. From the outset Swiss faced formidable challenges. To begin with, Crossair was a regional carrier with around 40% of its revenue generated by defunct Swissair. Crossair had never operated as an intercontinental airline, and the timing wasn't good for the revamp because the industry as a whole was stumbling after the terrorist attacks in the USA the previous year.

According to Biedermann, one good thing was positive lease rates on surplus aircraft. Swiss was in trouble from the beginning, and after its first year was suffering staggering losses. The Swiss government pumped CHF2 billion (then $1.5 billion) into the airline, but most of that was consumed in the first two years.

"Swiss really had three options," says Biedermann. "We could be a niche carrier and stay independent, we could downsize to a level where no one would recognize us, or we could attach ourselves to another airline group." The latter choice was made to bring stability. Biedermann tells *Airways* that the company learned the hard way that an alliance with similar carriers doesn't always work—a reference to the Sabena-Swissair debacle (*Airways*, February 2002).

Because of that experience, Swiss began discussions with Air France/KLM, British Airways (BA), and Lufthansa. Air France wasn't interested. It was too busy with the integration of KLM, which the French airline bought in 2004 (*Airways*, January 2004). Lufthansa's attempt to takeover the airline was not accepted by the Swiss public at the time; therefore, the major shareholders voted against the move. Talks with BA went well, because the British carrier and its Oneworld partners saw Zürich as an attractive alternate hub to London's congested Heathrow. "These were difficult negotiations, because we had our backs to the wall," remembers Biedermann. Burdened with debt and an uncertain future, Swiss was not an attractive proposition.

In the end, Swiss climbed into bed with BA, but soon realized the incompatibilities. The British, it seemed, were more interested in a one-night stand, while Swiss was seeking a more long-term, mutually beneficial relationship. To the Swiss it looked like a one-sided deal, where BA would gain everything and they would receive nothing in return. Swiss was finally accepted into the Oneworld alliance, but in June 2004 the airline announced its decision not to join. At the same time, new management at Swiss looked at the situation began negotiations with other airlines.

"Lufthansa took a different attitude the second time around," explains Biedermann. "They saw the value of Swiss to the Lufthansa group in a different context. And in March 2005 a deal with Lufthansa was announced with the German carrier holding an initial 11 per cent interest." Two years later, Lufthansa acquired the remaining shares in Swiss, and thus owns all the equity through a Swiss-based company called AirTrust.

In 2004, everyone was wondering how long Swiss would last. It was seen as a bad airline and found itself on the front page of newspapers everyday, mostly for the wrong reasons. Corporate customers were asking the airline why they should sign contracts with Swiss if its survival was in doubt. Surprisingly, reaction by the Swiss public to the news that a German airline had bought the national carrier was muted. "Maybe they didn't understand or couldn't care," says Biedermann. "I think people were tired of hearing about Swiss and its troubles." The lack of reaction meant the company could concentrate on turning the airline around.

Following a disastrous three years, Swiss had dropped routes, grounded airplanes, and dismissed employees to stay alive. But by the end of 2005, the airline was on the rebound and half the size it was in 2002. "This was the beginning of getting our house in order," notes Biedermann. "We could hardly have done it alone." He expounds that Swiss had traditionally measured itself against Lufthansa, so it seemed like a natural fit, although they have come to realize how different each can still be.

After the initial investment by Lufthansa, Swiss quickly set about changing the fleet composition on its European network by disposing of the smaller EMBRAER RJs and SAAB turboprops inherited from Crossair, in favor of the Avro RJ (BAe 146). These fly under a wet-lease agreement with a subsidiary called Swiss European Air Lines (SWU), which began operations in November 2005. Wholly owned by Swiss, SWU has its own operating certificate and business model, making it easier to compete in the regional market against a raft of European low-cost carriers (LCCs) that took advantage of the collapse of Swissair.

TRISTAR

Swiss European Air Lines operates regional services for Swiss using a fleet of Avro RJs.

As part of the restructuring, Swiss also renegotiated all of its supplier contracts including ground handling, maintenance, catering, and labor.

Each year, the airline has cut its losses in half, and for the first time recorded a net profit of CHF263 million ($220 million) in 2006. This compares to a CHF178 million ($150 million) loss the previous year. Swiss has a smaller network than when it started, but is carrying nearly the same number of passengers (10.5 million) that it did in 2002. "Integration with Lufthansa has been smooth so far," says Biedermann. "We have achieved a lot in a short period of time."

While there wasn't a huge public outcry when Lufthansa bought Swiss, many people felt that the airline had been given away. Under the deal, Swiss shareholders will receive an out-performance option in exchange for their shares, and the payout—which will occur in 2008—will depend on the performance of Lufthansa's shares compared with competitors' shares. Swiss recorded total losses of about €1.3 billion ($1.6 billion) from its start until 2005. The Swiss government's initial investment was gone, and some thought that the market should have been allowed to play out, and if Swiss went under, then someone would come in and pick up the pieces.

Biedermann says this would never have happened. "Sure, low-cost carriers would have entered the market, but they don't serve business passengers. And no long-haul airline will come in and serve as Swiss does because Switzerland alone is a small market, and that's why the government stepped in."

Clearly there is consolidation of the industry in Europe, and Lufthansa wants to be one of the drivers and, according to Biedermann, Swiss is a perfect example of how it can be done.

From the outset, Lufthansa wanted to keep the Swiss brand. "Lufthansa wants a red Swiss, not a yellow one," asserts Biedermann, commenting on the corporate colors of each airline. Swiss has a lot of entrepreneurial freedom. Sometimes there is pushback from Lufthansa when the Swiss airline tells them what they would like to do. One recent example was Swiss's decision to start service to China. Long-term planning had Shanghai on the radar for 2009, when new aircraft would be available to serve that route, but Lufthansa motivated Swiss to go now or the opportunity might be lost. As a result, it helped Swiss acquire the aircraft needed to serve Shanghai, with flights scheduled to start in May 2008.

As a small independent mountainous country with a population of only eight million, Switzerland does not have the same colonial connections of many other European countries. Yet Swiss has an impressive and growing network, currently serving 71 destinations in 42 countries around the world. "Swiss is big for the country it represents," says Biedermann, "you could liken it to KLM and The Netherlands." In fact, there are other carriers, such as Singapore Airlines and Cathay Pacific Airways, whose domestic markets combined are a mere 12 million. "By offering a quality travel experience, Swiss then becomes an attractive alternative for the consumer," notes Biedermann.

Swiss has a few other things going for it, namely Switzerland's high standard of living. Biedermann tells *Airways* that the Swiss have lots of disposable income and on average take more than two vacations a year. Coupled with this is the world-renowned reputation of Swiss quality. Switzerland is a strong brand, which supports the airline to sustain its network and generate superior revenues. "Many people around the world still see Swissair, and aren't aware of the struggles the airline has endured over the past few years," says Biedermann. Apart from Shanghai, the airline recently announced new long-haul service to Delhi, and is increasing capacity to many of its European destinations.

The aircraft fleet now stands at 74. Avro RJs and the Airbus A320 family are used on European and Middle East flights, and A330s and A340s handle long-haul services.

In 2007, Swiss announced that it would spend more than CHF1 billion ($819 million) on fleet renewal by replacing nine A330-200s with the same number of new A330-300s, the first four of which are due to enter service in 2009. The others will be online in the following two years. With the new aircraft, Swiss will provide first class

Swiss operates three members of the Airbus single-aisle family: the A320 (above), A321 (below), and A319 (bottom).

cabins throughout its intercontinental fleet. According to Biedermann, "We want to be a premium carrier, and to do that one really needs to offer a three-class product." The new aircraft will also come with modern IFE (in-flight entertainment) and revised business class seats.

Four A340-300s, formerly with Air Canada and Austrian Airlines, will be joining the fleet shortly; two others have already been integrated. In addition, Lufthansa has ordered two A320s for Swiss.

Biedermann admits that the airline has a product that in some ways does not reflect latest standards, and tells *Airways* that customer satisfaction trends are not progressing to the high level the airline would like, or expects. "Because of our financial challenges, we haven't been able to invest in our hardware," says Biedermann. "The fact we have done as well as we have is a real testament to our staff and the performance of our cabin crews."

In many ways Swiss's turnaround has been remarkable. Five years ago, the airline was losing money faster than you could slice through a piece of Swiss cheese. In 2006, the airline celebrated its first profitable year, and 2007 was expected to be even better. Biedermann discloses that there were three primary reasons for the positive results: managing the network better; stability from the Lufthansa deal; and being more efficient. Swiss takes great pride in the efficiencies it has gained. "We are able to produce at a low cost," says Biedermann. "We've brought in bigger aircraft and we're growing our route network, yet we have the same overhead we had two years ago." The only increased costs are from hiring more cabin and flight crews. Swiss expects to exploit this efficiency in the future.

Zürich-Kloten is the airline's hub (*Airways*, August 2004), and while the airport handles close to 20 million passengers each year, it still has a very 'human' and intimate feel. Clearing immigration took only a few minutes, and my luggage was already awaiting me at the carousel. Even reaching the airport's 'E' gates by underground train for departing passengers is quick and efficient. The airport was developed at Swissair's peak, so the infrastructure will allow for capacity growth, despite the airport's night ban, and restrictions on the number of takeoffs. In November 2007, the 'Movement Ceiling Initiative' was put to a referendum in Canton Zürich. Swiss was opposed to the initiative as it would severely restrict future operations at the airport, and limit the long-term future of Zürich as an air transport hub.

A train station, with connections throughout Switzerland and beyond, is conveniently located beneath the airport. Frequent trains whisk passengers to the center of Zürich in a few minutes. Travellers flying Swiss can also check their bags at Swiss ski resorts and train stations, whence the luggage is transported by rail to the airport, to arrive 'seamlessly' at the passenger's final destination.

Zürich is also one of those progressive airports that

During four segments *Airways* flew with Swiss, the cabin attendants in both economy and business were attentive. On both flights to and from New York, Swiss operated a three-class A330-200 in a F12C42Y142 configuration. The economy seats were equipped with seat-back personal television monitors and lumbar support, something many airlines do not offer. Although the IFE system is somewhat dated, Swiss has committed to upgrading this in the near future.

Our evening flight from New York-JFK to Geneva [Genève] pushed back seven minutes early, which was good considering the 40-minute connection I had for a flight from Geneva to Zürich. But then we didn't move. After about 15 minutes the captain announced that an Aeroflot Boeing 767 was blocking the Air France 777 in front of us. He promised that when the Aeroflot aircraft moved, we would be on our way. But congestion at JFK that night was worse than a Manhattan traffic jam. Finally after an hour of watching other airplanes come and go we started taxiing to the runway. But then the captain said that we were 15th in line for takeoff, and it would be about 30 more minutes before we were off the ground. Being more than an hour-and-a-half late meant missed connections in Geneva for many passengers, this editor included. However, I was very impressed with Swiss efficiency, as the ground staff had already rebooked passengers on later flights and boarding passes were ready when we arrived in Geneva.

On domestic flights, economy passengers are offered complimentary non-alcoholic drinks and a chocolate—Swiss chocolate, of course. During a morning flight between Zürich and Geneva, there were hot croissants and drinks in business class, and more delicious Swiss chocolate. ✈

PHOTOS: KEN DONOHUE

PHOTOS: ROB FINLAYSON

Long-haul services are handled by Airbus A340s and A330s.

offer visitors a large observation deck with excellent views of two departing runways. The area is equipped with a large children's play area, a café, and, in one area, a broadcast of air traffic control communications. Tours of the airport are also available.

Historically, Swissair used both Geneva and Zürich as hubs, but in 1996 all long-haul flights from Geneva except one to New York were dropped. "When Swiss started in 2002, we didn't have the aircraft to operate intercontinental destinations from Geneva," admits Biedermann, "we had to concentrate on Zürich, because it's hard to focus on multiple hubs if you are unsure of your survival." Today, New York is Swiss's only long-haul destination from Geneva.

By consolidating much of its network through Zürich, the airline effectively abandoned Geneva and EuroAirport Basel-Mulhouse-Freiburg; as a result EasyJet is now the biggest carrier in Geneva. Swiss says that increasing its presence at Basel is important, not because LCCs are there, but rather because the so-called Regio TriRhena (the French-German-Swiss triangle encompassing Alsace, southern Germany, and the Basel area) is an interesting market, with many large financial and pharmaceutical companies in the area. "Our corporate customers were telling us that if we can't use Swiss from Basel, then we can't use you from Zürich," reveals Biedermann. The airline has a dedicated fleet at Basel, serving ten destinations.

Swiss is bullish about its financial future, thanks to a strong global economy. Despite some weakness in the USA, Swiss has high exposure there and derives much of its intercontinental revenue from North America. "One challenge we face is that the average American consumer doesn't rate international travel high on their list, and with a devaluing US dollar, they may take fewer trips to Europe," says Biedermann. He expects this to be somewhat compensated by more Europeans travelling to the US, which has a lot to offer from a tourism perspective.

Only a few years ago, the airline industry in Switzerland was in turmoil. Many might have even called it a national embarrassment. Yet, once-proud Swissair's successor, which floundered from the beginning, managed to survive. In what really is a testament to the commitment and spirit of its employees and management, Swiss has put the quality back into Swiss skies. While the airline still has more work to do before becoming one of the world's premier air carriers, the foundation is in place to achieve that goal. ✈

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PHOTOS: KEN DONOHUE

Fast Facts

Swiss International Air Lines

IATA: LX **ICAO**: SWR **IATA/ARC**: 724 **Radio**: *Swiss*

Postfach
CH-4002 Basel
Switzerland

Tel: +41 61 582 0000
Fax: +41 61 582 3333

Website: www.swiss.com

Destinations: 71 (including 28 intercontinental)

Traffic (2006)
Passengers: 10,507,520
Total flights: 123,992
ASKs (available seat-kilometers, million): 27,673
RPKs (revenue passenger-kilometers, million): 22,074
Seat load factor: 79.8%

Founded: 1975 (as Crossair)
Start date: March 31, 2002 (as Swiss)
CEO: Christoph Franz
Employees: 6,748
Ownership: AirTrust (Lufthansa)

Fleet

Type	**Nº**	**Seats**	**Engines**
BAe 146-RJ85	1*	CY82	LY LF507-1F
BAe 146-RJ100	20*	CY97	LY LF507-1F
Airbus A319-112	7	CY138	CFMI CFM56-5B6/2/-2P
Airbus A320-214	18	CY150 or CY168	CFMI CFM56-5B4/2/-2P
Airbus A321-111	6	CY200	CFMI CFM56-5B1/2/-2P
Airbus A330-223	11	F12C42Y142 or C48Y182 or C42Y187	PW PW4168A
Airbus A340-313E/X	11	F8C48Y172 or C30Y252 or C30Y261	CFMI CFM56-5C4/-P

* operated by Swiss European Air Lines (SWU)

Swiss wet-leases a Boeing 737-800 from PrivatAir for the Zürich–Newark route; SAAB 2000s of Darwin Airline for the Zürich–Lugano route, Fokker 100s of Helvetic Airways for the Zürich–Manchester and Zürich–Budapest routes, and a Boeing 737-500 of Cirrus Airlines for the Zürich–Prague route.

On order

A320-200	2	due 2011
A330-300	9	due 2009-2011
A340-313	4	